ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF SOUTHERN INDIANA GAS AND ELECTRIC COMPANY D/B/A VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN SOUTH") FOR APPROVAL OF A CHANGE IN ITS FUEL COST ADJUSTMENT FOR ELECTRIC SERVICE IN ACCORDANCE WITH THE ORDER OF THE COMMISSION IN CAUSE NO. 37712 EFFECTIVE JUNE 18, 1986 AND SENATE BILL NO. 529 EFFECTIVE APRIL 11, 1979	)	CAUSE NO. 38708 FAC 87 APPROVED: JUL 2 8 2010

BY THE COMMISSION:
James D. Atterholt, Commissioner
David E Veleta, Administrative Law Judge

On May 17, 2010, in accordance with Indiana Code §8-1-2-42, Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. ("Vectren South" or "Applicant") filed its Verified Application in this Cause for approval for a change in its fuel cost charge. The Applicant filed with its Verified Application the testimony of Scott E. Albertson, Applicant's Director of Regulatory Affairs; Ronald G. Jochum, Applicant's Vice President of Power Supply; and J. Cas Swiz, Applicant's Manager, Regulatory and Utility Accounting. The Office of the Utility Consumer Counselor ("OUCC") filed its report and the testimony of Gregory Guerrettaz, a Certified Public Accountant, and Michael D. Eckert, a Senior Utility Analyst, in this matter on June 28, 2010. Vectren South filed Supplemental Testimony of Ronald G. Jochum and Emily Medine, a principal in the consulting firm of Energy Ventures Analysis, Inc., on July 2, 2010. On July 8, 2010, the Presiding Officers issued a docket entry requesting information from the Applicant. On July 9, 2010, Applicant filed a response to July the 8, 2010 docket entry. On July 12, 2010, the Presiding Officers issued a docket entry requesting additional information from Applicant. On July 13, 2010, Applicant filed a response to the July 12, 2010 docket entry.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission a public hearing was held in this Cause on July 13, 2010 at 10:00 A.M., EDT, in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana.

1. Notice and Jurisdiction. Due legal and timely notice of the commencement of the public hearing in this Cause was given and published by the Commission as required by law. Applicant operates a public electric utility and, as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. The provisions of said Act authorize the Commission to act in this proceeding. The Commission, therefore, has jurisdiction over the parties and the subject matter herein.

2. **Applicant's Characteristics.** Applicant is engaged in rendering electric utility service to the public in Indiana and owns and operates an electric generating plant and distribution system for the production, transmission, delivery and furnishing of this service.

3. **Source of Fuel and Purchased Power.** Applicant utilizes Indiana coal as its primary fuel source for electric generation. OUCC requested, and Applicant has made available, some specific data concerning Applicant's coal purchases. Applicant's evidence indicated it believed that through its fuel purchase policies and its purchase of power, Applicant endeavors to obtain available fuel or power as economically as possible. As discussed in Finding No. 5 below the parties have agreed to address issues raised by the OUCC in a sub-docket created herein with the understanding that the factor approved in this summary proceeding is not subject to refund pending the outcome of such sub-docket. Based on the evidence presented, the Commission finds that the Applicant has made every reasonable effort to acquire fuel so as to provide electricity to its retail customers at the lowest fuel cost reasonably possible.

4. **Purchased Power Costs for December 2009 Through February 2010.** Applicant's witness Jochum testified that a Settlement Agreement approved by the Commission in Cause No. 43414 is effective through April 30, 2012. The Agreement established daily benchmarks using a generic GT heat rate of 12,500 btu/kWh and the NYMEX Henry Hub Gas day ahead price plus $0.60/mmbtu gas transport charge for a generic gas-fired GT. Applicant's Exhibit No. 2, Schedule 9 illustrates the calculation of the Daily Benchmarks. Applying the Daily Benchmarks to individual power purchase transactions in this proceeding, Applicant requests the recovery of certain purchased power costs in excess of the Daily Benchmarks for the months of December 2009 and January 2010.

Applicant's witness Jochum stated that the Applicant incurred purchased power costs in December 2009 in excess of the Daily Benchmarks in the amount of $5,786.44 in December 2009 and $58,899.38 in January 2010. There were no purchases in excess of the Daily Benchmarks in February 2010. Consistent with the Commission's Order in Cause No. 43414, Vectren South has an opportunity to request recovery of and justify the reasonableness of purchased power costs above the respective Daily Benchmarks, which are benchmarks, not recovery caps. Applicant provided the Commission with evidence regarding purchased power that included purchased power volumes, costs, the reasons for the purchases, and the sum of hourly purchased power costs in excess of the applicable benchmarks for the reconciliation period (Applicant's Exhibit No. 2, Schedule 10). Applicant and OUCC witness Eckert concurred that all of the over-benchmark purchases were recoverable.

5. **Coal inventory and Must-Run Units.** OUCC witness Eckert expressed concerns the OUCC had with the level of Applicant's coal inventory and the extent to which Applicant used "must-run" designation for certain generating units in this FAC period. Mr. Eckert recommended that Vectren South be required to answer an OUCC data request concerning "must-run" designation. Based on submission of Mr. Eckert's testimony recently filed in Applicant's rate case, Cause No. 43839, the OUCC also requested that Applicant be required to

renegotiate its affiliate coal contracts to restore competitiveness and to mitigate the coal inventory build-up.

Vectren South filed supplemental testimony of Ronald G. Jochum and Emily Medine in response to the OUCC's recommendations. Mr. Jochum's supplemental testimony presented information on the coal contracts that were effective on January 1, 2009, including a review of his prior testimony in FACs 80, 81, and 83 related to the Applicant's RFP process, the resulting contracts and the comparative costs of other utilities' contracts. Mr. Jochum addressed the criteria under which Vectren South units are declared "must-run." He also discussed the effect of the current economic recession on electric industry prices and coal inventories. Mr. Jochum testified that coal inventories have similarly increased throughout the industry, including Duke Energy-Indiana. Mr. Jochum informed the Commission and OUCC that one of Applicant's primary supply contracts had in fact been renegotiated, and as a result, Applicant would not be receiving 1 million tons of contract coal in 2011, thus allowing Applicant to return to normal inventory levels by the end of next year.

Ms. Emily Medine testified that she reviewed Vectren South's coal procurement and inventory management. Ms. Medine explained reasons for the changes in the power market since early 2009, when effects of the current economic recession began to be felt. She testified Vectren South's increase in coal inventory is typical of the industry experience as a result of the drop in electricity demand due to economic recession and due to low natural gas alternative generation fuel prices. She described Vectren South's managing of coal contracts to reduce inventory levels and the ongoing decline of inventory levels. She reviewed Vectren South's coal procurement practices in detail and found them appropriate. She also presented an evaluation of Vectren's contracts based on a comparison to forward price curves. She explained that typically renegotiation of coal supply agreements are based on terms acceptable to both parties, i.e. prices are reduced in exchange for increased volume or extended contract term. She described how price concessions by Vectren South in 2006 were fairly standard for a utility concerned that it may lose a coal supplier. She detailed the reasons why there is no need for Vectren South to be ordered to renegotiate its supply contracts.

Both parties sought to minimize the level of litigation in this summary FAC proceeding by waiving attendance and cross examination of each other's witnesses. Both parties supported a prompt review and resolution of the OUCC's coal issues raised in the testimony of Mr. Eckert. Both parties also recognized that the OUCC's inventory and contract renegotiation issues regarding Vectren South's coal contracts have been raised in the Applicant's pending rate case, Cause No. 43839, which is scheduled for hearing on August 23, 2010. The OUCC's must run issue is currently a discovery dispute. After lengthy off-the-record discussions as to the appropriate way to proceed, it was decided that a sub-docket proceeding should be established to address the issues raised by the OUCC. As discussed at the hearing, the parties have agreed to determine witness availability and will confer regarding procedural issues. Accordingly, the Commission finds that a sub-docket, Cause No. 38708 FAC-87-S1, should be created to allow a review of the issues raised by OUCC witness Eckert without the statutory time constraints of an FAC summary proceeding.

6. Available Data on Actual Fuel Cost. At the time of the filing of the verified application, the latest month for which Applicant's actual fuel costs were available was February 2010, and the latest three months for which such figures were available were December 2009, January and February 2010.

The Applicant's cost of fuel to generate electricity and the cost of fuel included in the cost of purchased electricity in Applicant's rate Order approved August 15, 2007 in Cause No. 43111 was $0.023363 per kWh. Applicant's cost of fuel to generate electricity and the cost of fuel included in the cost of purchased electricity in February 2010 was $0.031902 per kWh (Exhibit 2, Schedule 5, page 3 of 4, Line 25), and for the months of December 2009, January and February 2010, the weighted average cost was $0.034809 per kWh (Exhibit 2, Schedule 5, page 4 of 4, Line 25).

7. Fuel Cost/Other Operating Expenses. Actual increases in Applicant's fuel cost through February 28, 2010 have not been offset by actual decreases in other operating expenses. In Cause No. 43111, the Commission found Applicant's annual operation and maintenance expenses, excluding fuel cost, to be $244,883,000. As shown in Exhibit No. 3 of the application, the actual operation and maintenance expense, excluding fuel cost, for the twelve months ended February 28, 2010 amounted to $256,893,000. Thus, these figures show an increase in such expenses rather than a decrease.

8. Return Earned. Indiana Code § 8-1-2-42(d) (3), subject to the provisions of Indiana Code § 8-1-2-42.3, generally prohibits a fuel cost adjustment charge which would result in Applicant earning a return in excess of the applicable authorized return. Should the fuel cost adjustment result in Applicant earning a return in excess of the applicable authorized return, Applicant must, in accordance with the provisions of Indiana Code § 8-1-2-42.3, determine if the sum of the differentials between the actual earned return and the authorized return for each of the 12 month periods considered during the relevant period is greater than zero.

The Order in Applicant's most recent general rate case, Cause No. 43111 dated August 15, 2007, allowed a return of $76,400,199 to be phased-in over the appropriate period that net income is affected by the earnings modification as a result of the Commission's approval of the Order in Cause No. 43111. The allowed return from Cause No. 43111, when coupled with the ECR Order adjustment from Cause No. 42861 and the Blackfoot Landfill Generation Adjustment from Cause No. 43577, results in a total authorized return in Cause No. 38708 FAC 87 of $84,350,041, including the prorating of the additional return allowed in Cause No. 42861. Exhibit No. 3 of Applicant's exhibits shows net electric operating income applicable to retail customers for the twelve months ended February 28, 2010 of $79,903,000. Thus, Applicant did not exceed its authorized return.

9. Estimation of Fuel Cost. Applicant estimates that its prospective monthly average fuel cost for the months of August 2010 through October 2010 will be $15,407,263 (Exhibit 2, Schedule 1, Line 23, Col E). Applicant estimated its weighted average fuel cost for December 2009 through February 2010 would be $0.034536 per kWh (Exhibit 2, Schedule 5, page 4 of 4, Line 25). The actual weighted average fuel cost experienced for this three month period was $0.034809 per kWh (Id.) resulting in a difference between estimated and actual weighted average cost in the amount of $0.000273 per kWh or (0.78)% (Exhibit 2, Schedule 5, Page 4 of 4, Line 26). Based on the evidence presented, the Commission finds that Applicant's estimating techniques are reasonable, and its estimates for December 2009, January and February 2010 should be accepted.

10. Actual Incremental Fuel Cost/Actual Incremental Fuel Clause Revenue. During December 2009, January and February 2010, Applicant's actual incremental cost of fuel incurred was $15,402,396 (Exhibit 2, Schedule 4, total of Column D, pages 1-3) but its actual incremental fuel adjustment revenues to be reconciled with this amount equaled $14,469,687 (Id., Column H), resulting in an under recovery for the reconciliation period, in the amount of $932,709 (Id., Column I). Applicant's reconciliation of the actual incremental fuel cost and the collected fuel costs for December 2009, January and February 2010 is proper and when combined with the estimated three months of August, September and October 2010 assures that the Applicant is reconciling actual fuel cost applicable to kWh sales.

11. Resulting Fuel Cost Adjustment. The estimated cost of fuel for the months of August, September and October 2010, in the amount of $0.034768 per kWh (Exhibit 2, Schedule 1, Line 24) plus the variance of $0.000702 per kWh (Id., Line 26), less the base cost of fuel in the amount of $0.023363 per kWh (Id., Line 28) results in a factor of $0.012107 per kWh (Id., Line 29) and, when modified for the recovery of the Indiana Utility Receipts Tax, results in a fuel cost adjustment of $0.012295 per kWh (Id., Line 30) to be applied to the usage billed by the Applicant during August, September and October 2010. This represents an increase of $0.003834 per kWh from the currently approved fuel cost adjustment.

12. Effect on Customers. The average customer using 1,000 kWh per month will experience an increase of $3.84 or 3.02% on his or her electric bill for August, September and October 2010.

13. Interim Rates. The Commission is unable to determine whether the Applicant will earn an excess return while this FAC is in effect. Accordingly, the Commission finds that the fuel cost adjustment approved herein should be interim subject to refund, pending reconciliation of fuel costs in a subsequent FAC in the event an excess return is earned.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Application of Vectren Energy Delivery of Indiana, Inc. for approval of a fuel cost adjustment for electric service as set out in Finding No. 11 above shall be and hereby is approved.

2. The fuel cost adjustment approved herein shall be an interim rate subject to refund consistent with Finding No. 13 above.

3. Applicant shall file with the Electricity Division of this Commission, prior to placing in effect the fuel cost adjustment herein approved, a separate amendment to its rate schedules with a reasonable reference therein reflecting that such fuel cost adjustment is applicable to all of its filed rate schedules.

4. A subdocket is hereby created consistent with Finding No. 5 above. A prehearing conference in the subdocket, Cause No. 38708 FAC-87-S1, is scheduled for 10:00 a.m. on August 17, 2010 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana.

5. This Order shall be effective on and after the date of its approval.

HARDY, LANDIS, ATTERHOLT, AND ZIEGNER CONCUR; MAYS NOT PARTICIPATING

APPROVED: JUL 28 2010

I hereby certify that the above is a true
And correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission